



Trey Judy
Director – Regulatory

March 7, 2016

By Electronic Transmission

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, D.C. 20554

RE: Connect America Fund, WC Docket No. 10-90

Dear Ms. Dortch:

On March 3, 2016, the undersigned Trey Judy, Director – Regulatory and David Armistead, General Counsel both of Hargray Communications Group, Inc. (Hargray), met with Stephanie Weiner, Senior Legal Advisor to Chairman Tom Wheeler, Amy Bender, Legal Advisor to Commissioner Michael O'Reilly, and Rebekah Goodheart, Legal Advisor to Commissioner Mignon Clyburn, to discuss issues pending in the above-cited proceedings relating to the reform of the FCC's system for providing support to high-cost, rate-of-return local exchange carriers.

The group discussed mechanics behind the Capital Budget Mechanism (CBM) and the appropriate timing for implementation of limits on capital expenditures. The CBM is a proposal that will calculate limits on capital expenditures to allow companies to replace aging plant. It also has an adjustment factor that allows a company to make greater capital investments in areas where customers have low availability of broadband and decreases their ability to make investments in areas with greater broadband availability. Hargray noted that there was no prior discussion about how to measure broadband availability and that it would be necessary for the Commission to allow companies the opportunity to supplement information on broadband availability previously provided on FCC Form 477.

The standard to report broadband availability on Form 477 is the ability to provide broadband to at least one location. Hargray noted that using Form 477 data would create the appearance of broadband availability where carriers cannot meet broadband speed requirements. Hargray cited an instance where it reported broadband as available at 10 Mbps upstream and 1Mbps downstream because it delivered the service to one or more locations within each of a group of census blocks, but that more than 500 locations within those census blocks could receive only 1 Mbps upstream and 1 Mbps downstream from Hargray and could receive no service from a competitor. Hargray speculated that there might be numerous situations where similar reporting irregularities also occurred. Hargray suggested that limits on capital expenditures should be put

in place January 1, 2017 to allow time for companies to provide more specific data on broadband availability.

In addition, Hargray noted that this additional data would be useful to the FCC to track current and future broadband deployment on a more granular level. The Commission has previously expressed a desire to get more detailed deployment information and this process would provide the vehicle to obtain the information they seek.

Hargray also noted that companies plan their capital expenditures well in advance and those projects can be long term in nature. Once projects are set in motion, there may be significant ramifications from curtailing them prior to completion. Setting an implementation date at the beginning of a calendar year would allow companies time to determine if their planned expenditures would be within the allowed amount, assess the impact of exceeding those limits and adjust plans as appropriate. It would also align with regular financial reporting and planning periods.

Lastly, Hargray discussed how companies track their capital budgets, which are based on when funds are distributed, not when plant is placed into service. During the construction phase, costs are recorded into a Work in Progress (WIP) account. After completion, those costs are moved to Plant in Service accounts. Hargray suggested that the formula for determining capital expenditures for any period should be plant added to service less beginning work in progress plus ending work in progress.

Plant added to Service - Less Beginning WIP + Plus Ending WIP = Annual Capital Expenditures

If you have any questions, please contact the undersigned.

Respectfully submitted,

/s/ Trey Judy
Trey Judy

cc: Stephanie Weiner
Amy Bender
Rebekah Goodheart